ATHABASCA COLUMBIA RESOURCES LTD.
Annual Report 1972

DIRECTORS AND OFFICERS

P. R. Sandwell	Vancouver	*Chairman*
W. A. Dow	Vancouver	*President*
E. E. McNally	Calgary	*Secretary*
S. W. Armstrong	Calgary	
J. W. Barrington	Calgary	
P. M. Barrington	Surrey, England	
J. G. Chaston	Vancouver	
J. A. McKee	Toronto	
J. M. Pryde	Calgary	
W. H. Ripley	Calgary	

HEAD OFFICE
Suite 501, 315 - 8th Avenue S.W., Calgary 2, Alberta

OPERATIONS OFFICE
1520 Alberni Street, Vancouver 5, B.C.

REGISTRAR AND TRANSFER AGENT
Canada Permanent Trust Company - Calgary and Vancouver

AUDITORS
Peat Marwick Mitchell & Co.

STOCK LISTED
— Vancouver Stock Exchange

Annual meeting will be held at Village Green Inn, Duncan, B.C. (cover photograph).

DIRECTORS' REPORT

The highlights of the Company's operation for the twelve month period to 31 May 1972 were:

1. The sale, under an agreement for sale, by our subsidiary company Inversora Comercial S.A. of its interest in beachfront property at Puerto Vallarta, Mexico. As indicated in the report for the six months to November 1971 the fulfillment of the agreement for sale is dependent on the purchaser, Playasol S.A., successfully developing the property. Subsequent to the year end we received an initial payment of approximately $320,000 and we expect further payments of approximately $316,000 before the end of 1972. These payments would indicate the project is proceeding as planned.

2. The funds received from Mexico have further improved, and will continue to improve, the working capital position reflected in the 31 May 1972 balance sheet.

3. The purchase of a one-third interest in Village Green Hotel Ltd. which operates a modern fifty room hotel with full public facilities at Duncan, B.C., and in Village Green Hotel (Vernon) Ltd. which completed early in September 1972 a ninety room fully serviced hotel at Vernon, B.C.

4. The sale of a parkade building in Vancouver in November 1971 for a non-recurring profit of approximately $540,000.

5. A further planned reduction in trucking operations in Alaska was carried out during the year with the sale of Kodiak Oilfield Haulers Inc. and the transfer of a number of trucks owned by Arctic Motor Freight Inc. to the northern Canadian operations. Operations in the latter area have shown further growth.

6. Overall earnings for the year of $311,535 compare favorably with the loss of $197,936 experienced in the previous year.

7. The overall balance sheet position at 31 May 1972 reflects a general improvement from that of the previous year with shareholders' equity increasing from $2,543,484 to $2,945,015.

Results of other operating activities are reported on later in this report.

Management efforts during the current fiscal year will be directed particularly to further expansion of the trucking operations in Canada — and in Alaska if construction of the Alyeska Pipeline project is undertaken — and to our hotel and real estate divisions.

TRANSPORTATION

As indicated in the last Annual Report negotiations were completed during the year for the sale of Kodiak Oilfield Haulers Inc. which held State of Alaska licenses for truck operations on the North Slope of Alaska. In conjunction with this sale certain trucks owned by Kodiak were transferred to the Canadian holding company, Kenai Trucking (1969) Ltd. At the same time share ownership in Arctic Motor Freight Inc. was transferred from the individual shareholders, including Athabasca's 50% interest, to Kenai Trucking (1969) Ltd. Kenai Trucking (1969) Ltd. also issued a $900,000 debenture to Athabasca replacing various debentures issued by Kodiak and Kenai. As indicated in the ownership chart on the back page of this report Athabasca now holds a 50% interest in Kenai Trucking (1969) Ltd. which in turn holds a 100% interest in Arctic and a 90% interest in Scandia Trucking Ltd.

The only trucking operations in Alaska now consist of some 20 trucks owned by Arctic Motor Freight Inc. of which 5 or 6 are fully employed providing a minimal break-even operation with a further 5 or 6 to be transferred back to Canada early in the fall of 1972. Our policy is to maintain this minimum operating activity in anticipation of substantial contracts that may be available when the Alyeska project is undertaken. At that time the truck fleet would be expanded substantially.

Trucking operations in Canada are primarily conducted through Scandia Trucking Ltd. which experienced substantial growth in the Canadian Arctic. This growth was largely offset by lower than budgeted results in the oilfield exploration activities in Alberta and Athabasca's share of earnings for Kenai and Scandia for the year to 31 March 1972 was somewhat below forecast.

In recent months business has picked up in Alberta and with the transportation requirements of the Mackenzie Delta transportation corridor a substantial increase in trucking revenue is expected over the next year. For the four month period to 31 July 1972, which is normally the slowest period of the year, the consolidated cash flow of Kenai, Scandia and Arctic was about $166,000 greater than in the same period in 1971.

REAL ESTATE

Mexican Property

As indicated earlier in this report your management is confident development of the property will commence almost immediately. This should ensure repayment of the total investment plus a significant profit over the next two or three years. The initial payment of $320,000 received by the end of September suggests a sufficiently large commitment to guarantee future performance.

Hawaii

Development on the waterfront land reclamation project on the Island of Molokai in the Hawaiian Islands is nearing completion in accordance with original plans and budgets.

Negotiations are under way on the possibility of a major resort and condominium development on the property. While it was your Company's stated intention to sell its interest in this investment during 1972 we are impressed with the potential for a major development and may participate in such a project. Any additional investment required for such participation would be nominal.

Anmore Recreations Ltd.

While development of this mobile home park was delayed due to adverse weather conditions during the year the initial 60 pads of Phase 1 are virtually completed. A waiting list of potential tenants has resulted in every pad being rented immediately it is completed.

Expansion of the project to its full 300 pads will be carried out in a planned program over the next two or three years.

HOTELS

Executive House Ltd.

Operations of Executive House Ltd. continue to show profitable growth. During the year the balance of your Company's original loan to Executive House was repaid and an initial dividend of $125,000 was received by the Company.

Some further expansion plans are under consideration.

Village Green Hotel Ltd.

In December 1971 your Company purchased a one-third interest in a fifty room hotel with full public areas in Duncan. The other shareholders are E. D. Jackson, our partner in Executive House Ltd., and Hy's of Canada Ltd.

This hotel was built in 1969 and has developed an excellent reputation and earnings record.

Village Green Hotel (Vernon) Ltd.

The shareholders in the Village Green Hotel project in Duncan formed this company earlier in 1972 to erect a ninety room hotel at Vernon. The hotel was completed on schedule on 20 September 1972 and is expected to duplicate the successful experience of the Duncan operation. Further expansion of the hotel operations is contemplated.

PETROLEUM

Virden Roselea

Annual net income of about $40,000 continues to be received from this oil production.

Arctic Islands

Present exploration activity in the Arctic Islands suggests some further increase in the value of the gross overriding royalty of 3½% held on some 200,000 acres in the Arctic.

MINING

T.V.I. Mining

Various exploration programs were carried out during the year on a number of the properties jointly held by T.V.I. Ltd. and the Company. Farm out payments and royalty income from some of these properties provided most of the funds necessary for the exploration program during the year.

Jade Queen Mines Ltd. (N.P.L.)

In the 1971 Annual Report it was indicated that the level of business achieved by Jade Queen Mines Ltd. (N.P.L.) had shown further growth in 1971 but that losses were being incurred. This situation continued into the current fiscal year and as a result a decision was made earlier this year to dispose of the Company's interest in Jade Queen Mines Ltd. (N.P.L.).

Negotiations are currently in process on such a sale. While a final agreement has not been reached the attached financial statements indicate a reserve of about $131,000 has been set up against the eventual sale of the shares. To place Jade Queen in a more liquid position one of its jade deposits and some of its equipment were sold during the year.

OPERATING RESULTS

The statement of earnings for the twelve months to 31 May 1972 indicates net earnings of some $311,000 as compared to the loss of $197,000 reported in the previous year.

Some of the factors to be considered in reviewing the results of the current year are:

1. A non recurring profit of approximately $540,000 was obtained on the sale of the parkade.
2. A dividend of $125,000 was received from Executive House Ltd. in December 1971.
3. In consolidating loans previously made to the trucking operations in Alaska through a $900,000 debenture from Kenai Trucking (1969) Ltd., an exchange loss of approximately $74,000 was written off.
4. Prepayment of a mortgage held by the Company involved a discount of $15,000.
5. As indicated earlier a reserve for a write-off of approximately $131,000 was provided for the Company's 60% interest in Jade Queen Mines Ltd. (N.P.L.).

The Company's interest in the trucking operations which consisted of a cash generation of about $200,000 during the year has not been reflected in the audited statements.

The substantial improvement in the Company's working capital position reflected in the 31 May 1972 balance sheet has further strengthened since the year end through the initial proceeds from the sale of the Mexican land.

CONSOLIDATED BALANCE SHEET

May 31, 1972 *(with comparative figures for 1971)*

ASSETS

	1972	1971 (Note 1)
Current assets:		
Cash	**$ 18,466**	$ 11,918
Accounts receivable	**114,882**	14,851
Accrued interest receivable	**53,682**	66,242
Dividend receivable	**—**	22,500
7% Mortgage receivable	**—**	105,593
Income taxes recoverable	**—**	82
Prepaid expenses	**52**	56
Total current assets	**187,082**	221,242
Certificate of deposit (Note 2)	**152,632**	—
Property, plant and equipment, at cost (Note 3)	**1,515,965**	1,313,752
Less accumulated depreciation and depletion	**70,706**	52,524
	1,445,259	1,261,228
Investments in and advances to inactive subsidiaries (Note 1)	**829,301**	453,758
Less amount to be paid solely out of proceeds from inactive subsidiary (Note 4)	**94,200**	94,200
	735,101	359,558
Other investments, at cost less amounts written-off:		
Shares, no quoted market value	**89,562**	30,164
Debenture and notes receivable	**304,100**	35,000
	393,662	65,164
Investment in and advances to 50%-owned companies, at cost:		
Shares	**817,320**	918,295
Debentures and notes receivable	**1,150,182**	964,297
	1,967,502	1,882,592
Organization and financing costs	**35,212**	35,212
	$ 4,916,450	$ 3,824,996

See accompanying notes.

LIABILITIES

	1972	1971 (Note 1)
Current liabilities:		
Bank loan — secured (Note 5)	**$ 200,000**	$ 800,000
Promissory notes payable	**34,000**	130,000
Accounts payable	**164,840**	28,649
Accrued interest payable	**27,163**	35,357
Total current liabilities	**426,003**	994,006
Advance from inactive subsidiary (Note 1)	**800,432**	287,506
Long-term debt (Note 5)	**745,000**	—
Shareholders' equity:		
Capital stock (Note 6)		
Common shares without nominal or par value Authorized 3,000,000 shares; issued and outstanding 1,237,096 shares (1971 – 1,185,670 shares)	**2,836,835**	2,746,839
Retained earnings (deficit) (Note 5)	**108,180**	(203,355)
	2,945,015	2,543,484
Contingent liabilities (Note 7)		
	$ 4,916,450	$ 3,824,996

On behalf of the Board:

W. A. DOW, *Director*

E. E. McNALLY, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

Year ended May 31, 1972 *(with comparative figures for 1971)*

	1972	1971 (Note 1)
Revenue:		
Crude oil sales	**$ 55,408**	$ 55,182
Dividends	**125,200**	22,500
Interest	**100,074**	86,472
Other	**12,557**	1,000
	293,239	165,154
Expenses:		
Crude oil production	**16,687**	15,026
Dryholes and abandonments	**4,697**	22,683
Depletion	**12,260**	13,193
Depreciation	**5,922**	6,413
Interest:		
Long-term	**99,295**	13,634
Other	**4,393**	134,108
Administration	**92,944**	81,045
Bad debts	**—**	60,254
	236,198	346,356
Net earnings (loss) before the following	**57,041**	(181,202)
Other charges (credits):		
Discount on repayment of mortgage	**15,000**	—
Loss on foreign exchange (Note 9)	**74,294**	—
Write down of investments	**14,353**	9,999
Gain on sale of other investments	**(9,278)**	(2,960)
	94,369	7,039
Net loss before the following	**37,328**	188,241
Net operating loss of inactive subsidiaries (Note 1)	**57,006**	9,695
Net loss before extraordinary credit	**94,334**	197,936
Extraordinary credit, net (Note 10)	**405,869**	—
Net earnings (loss) (Note 11)	**$ 311,535**	($ 197,936)

See accompanying notes.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended May 31, 1972 *(with comparative figures for 1971)*

	1972	1971 (Note 1)
Funds provided:		
Proceeds from sale of shares of non-controlled companies	**$ 117,005**	$ 45,027
Proceeds on sale of property, plant and equipment	**10,163**	1,297
Repayment of debentures, notes and mortgage receivable	**20,000**	141,143
Advances from inactive subsidiary	**513,221**	474,151
Proceeds on refund of deposit	**—**	750
Issue of long-term debt	**235,000**	—
Conversion of current liabilities to long-term debt	**730,000**	—
Issue of capital stock	**89,996**	54,952
Total funds provided	**1,715,385**	717,320
Funds used:		
Net earnings (loss) for the year	**311,535**	(197,936)
Add non-cash items:		
Dry holes and abandonments	**4,697**	22,683
Depletion	**12,260**	13,193
Depreciation	**5,922**	6,413
Write-down of other investments	**14,353**	9,999
Net loss of inactive subsidiaries	**57,006**	9,695
Bad debts	**—**	59,808
	94,238	121,791
	405,773	(76,145)
Deduct non-cash items:		
Gain on sale of other investments	**9,278**	2,500
Extraordinary credit, net	**405,869**	—
	415,147	2,500
Funds used in operations	**9,374**	78,645
Purchase of certificate of deposit	**152,632**	—
Advances to inactive subsidiary	**26,975**	78,393
Purchase of fixed assets	**217,073**	124,766
Additional investment in shares of non-controlled companies	**80,503**	52,198
Purchase of debentures and notes receivable	**474,985**	35,113
Reduction of long-term debt	**220,000**	—
Total funds used	**1,181,542**	369,115
Decrease in working capital deficiency	**$ 533,843**	$ 348,205

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended May 31, 1972 *(with comparative figures for 1971)*

	1972	1971
Deficit, beginning of year	**$ 203,355**	$ 5,419
Net earnings (loss)	**311,535**	(197,936)
Retained earnings (deficit), end of year	**$ 108,180**	($ 203,355)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 1972

1. Principles of Consolidation:

The consolidated financial statements include the accounts of the Company's wholly-owned active subsidiairies, Athabasca Columbia Buildings Ltd., Athabasca Columbia Mining Ltd., Inversora Comercial de Occidente S.A. de C.V. and Hotel Club Los Arcos S.A. de C.V. During the year Athabasca Columbia Parking Ltd. and Jade Queen Mines Ltd. (N.P.L.) sold substantially all of their fixed assets and are now inactive; therefore, the assets and liabilities of these inactive subsidiaries have not been consolidated, however the results of their operations have been reflected on an equity basis in the accompanying consolidated financial statements. The comparative figures for 1971 have been restated to conform to this method of presentation. All inter-company accounts of the active subsidiaries have been eliminated on consolidation and only the amounts of inter-company income and expense relative to inactive subsidiaries have been eliminated. The accounts of foreign subsidiaries have been converted to Canadian dollars at the applicable equivalent rates of foreign exchange.

2. Certificate of deposit:

The Company has pledged a $150,000 (U.S. funds) certificate of deposit as collateral security for loans to a 50% owned company, which loans aggregated $185,800 (U.S. funds) at May 31, 1972.

3. Property, plant and equipment:

	Cost	Accumulated depreciation and depletion	Net book value
Land (includes development and related expenses)	$1,190,661	—	1,190,661
Producing oil properties including equipment thereon	120,646	70,706	49,940
Mining properties — undeveloped	125,030	—	125,030
Deferred development and exploration costs	79,628	—	79,628
	$1,515,965	70,706	1,445,259

4. Amount to be paid solely out of proceeds from inactive subsidiary:

The 9½% note payable is repayable only to the extent of monies received by the company from its 60% owned inactive subsidiary, Jade Queen Mines Ltd. (N.P.L.).

5. Long-term debt:

	Current Portion	Total Amount
Bank loan — secured	$ 200,000	655,000
11% note payable	—	290,000
	$ 200,000	945,000

The bank loan is secured by the following:

1. All of the shares of Athabasca Columbia Buildings Ltd. and Athabasca Columbia Parking Ltd.
2. Shares of a 50% owned company, Kenai Trucking (1969) Ltd.
3. Other share investments recorded in the accounts at a carrying value of $86,645.
4. Letter of undertaking to sell one or more of (a) certain investments, included above under other share investments, having a carrying value of $80,011 and/or (b) the production from the company's interest in its producing oil properties, in the event that the Company is unable to meet its initial instalment of $200,000 due January 1, 1973.
5. Letter of undertaking to provide debenture security acceptable to the bank (see below).
6. Assignment of debenture receivable from a 50% owned company in the principal amount of $900,000.

Subsequent to May 31, 1972, the Company issued as additional security a demand debenture in the amount of $750,000 as security for the Company's banking indebtedness, with interest at the rate of 10% per annum or such other rate as may be agreed upon from time to time.

The demand debenture is secured by a first floating charge in favour of the bank on all of the Company's properties, assets, effects and undertakings, both present and future. The debenture imposes restrictions on the payment of dividends, capital expenditures, advances to affiliated and subsidiary companies and the becoming a guarantor or endorser of any notes or obligations other than in the normal course of business.

The bank loan is payable on demand, but under the agreed terms of repayment, an amount of $200,000 is due January 1, 1973 and 1974, and the balance is due January 1, 1975.

The 11% note payable is repayable as follows:

June 1, 1973	$100,000
June 1, 1974	100,000
June 1, 1975	90,000

6. Capital stock:

Common shares outstanding were as follows:

	Shares	Amount
Balance, May 31, 1971	1,185,670	$ 2,746,839
Issued during the year:		
Issued upon conversion of cash advances carrying interest of 12% per annum..	42,856	75,000
Issued for 8% note receivable of a 50% owned company	8,570	14,996
Balance, May 31, 1972	1,237,096	$ 2,836,835

The following stock options were outstanding at May 31, 1972:

	Number of Shares	Option Price per Share	Expiry Date
Directors, officers and key management personnel	60,000	$2.00	May 5, 1977

During the year, options to the company's bankers for 30,000 shares expired; options to directors and officers for 35,000 shares were cancelled and options for 60,000 shares were granted to directors, officers and key management personnel. The options granted during the year are subject to approval at the annual general meeting of shareholders.

7. Contingent liabilities:

The company has guaranteed the banking indebtedness of Jade Queen Mines Ltd. (N.P.L.) for $30,000, of a 50% owned company for $25,000 and of a non-controlled company for $300,000.

8. Remuneration of directors and officers:

The aggregate direct remuneration paid to directors and senior officers of the Company amounted to $14,000 for the year ended May 31, 1972 (1971 — $19,200).

9. Loss on foreign exchange:

The loss on foreign exchange arose primarily from the conversion of debentures receivable from a 50% owned company of $800,000 (U.S.) plus accrued interest of $108,650 (U.S.) into a debenture of $900,000 (CDN).

10. Extraordinary credit, net:

The extraordinary credit resulted from the following:

Gain on sale of parkade of Athabasca Columbia Parking Ltd., less applicable income taxes of $26,670	$ 537,333
Write-off of pre-operating costs of Jade Queen Mines Ltd. (N.P.L.)	(131,464)
	$ 405,869

11. Earnings per share:

	1972	1971
Basic earnings (loss) per share (based on average number of shares outstanding):		
Net loss before extraordinary credit..	$ (.08)	$ (.17)
Extraordinary credit, net	.34	—
Net earnings (loss)	$ .26	$ (.17)

The exercise of the outstanding stock options would not have a dilutive effect on the 1972 net earnings per share.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Athabasca Columbia Resources Ltd. and subsidiary companies as of May 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, except that the company has made no provision in its accounts in respect to the losses suffered by one of its 50% owned companies which from date of acquisition amounts to approximately $340,000, these consolidated financial statements present fairly the financial position of the company and subsidiary companies at May 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, as restated, as set out in Note 1.

Calgary, Alberta
July 26, 1972

Peat, Marwick, Mitchell & Co.
Chartered Accountants

CORPORATE CHART

ATHABASCA COLUMBIA RESOURCES LTD.

REAL ESTATE

INVERSORA COMERCIAL DE OCCIDENTE S.A. 100%
Mexican holding company, beach property, Puerto Vallarta

ANMORE RECREATIONS LTD. 18%
(Earnings not consolidated) Trailer park, Port Moody, B.C.

KAUNAKAKAI RESOURCES, INC. 50%
25% interest in beach property, Molokai, Hawaii

HOTELS

ATHABASCA COLUMBIA BUILDINGS LTD. 100%
Which owns:

a. 50% in Executive House Ltd. (Earnings not consolidated) Hotel-apartment at Victoria, B.C.

VILLAGE GREEN HOTEL LTD. 33⅓%
Which owns a 50-room hotel with full public areas in Duncan, B.C.

VILLAGE GREEN HOTEL (VERNON) LTD. 33⅓%
Which owns a recently completed 90-room hotel with full public areas in Vernon, B.C.

MINING, PETROLEUM & NATURAL GAS

ATHABASCA COLUMBIA MINING LTD. 100%

a. Manitoba Virden Roselea production 50% (Gulf Oil Company 50%)
b. Arctic P & NG Permits, 3½% Gross overriding royalty
c. Miscellaneous Exploration Permits

JADE QUEEN MINES LTD. NPL 60%

T.V.I. MINING 50%
Joint Venture on fourteen properties

TRANSPORTATION

KENAI TRUCKING (1969) LTD. 50%
(Earnings not consolidated) Which owns:

a. 90% in Scandia Trucking Ltd. — active in Canada
b. 100% in Arctic Motor Freight Inc. — active in Alaska